



USDA Rural Development-Texas Direct Homeownership (Section 502) Builder/Contractor Information

How does a Builder/Contractor get on the USDA Rural Development, local office "Builder/Contractor's List"?

If the applicant selects a contractor with whom the USDA Rural Development local office is not familiar, the Loan Originator should:

1. Interview the contractor and inspect homes they have recently built;
2. Obtain a certified financial statement; *the financial Statement should be signed by the Contractor with the words "I certify that this Financial Statement is true and correct."*
3. Obtain, at the contractor's expense, a commercial credit report (\$40.00) on the firm and consumer credit reports (\$28.00) on each of the principals. (Please make check payable to USDA Rural Development)
4. Check with the local consumer protection agency or Better Business Bureau for any complaints about the builder; and
5. Talk to other homeowners about their experiences with the builder.
6. Unless exempted, Builder/Contractor's must have a "**certificate of registration**" from the Texas Residential Construction Commission (TRCC) <http://www.trcc.state.tx.us/>.

What building code is used?

USDA Rural Development requires residential construction designs to be "plan certified" as meeting the minimum standards of applicable building and energy conservation codes. It is the responsibility of the "plan certifier" to determine the prevailing codes in the area of construction and to complete the required *Form RD 1924-25* accordingly.

<http://www.rurdev.usda.gov/regs/forms/1924-25.pdf>

Qualifications for those providing the required, completed Form RD 1924-25 are found in RD Instruction 1924.5(f)(l)(iii).

How many inspections are required?

The number and timing of inspections varies by the type and extent of work performed. The inspector may conduct as many inspections as necessary, but a minimum of 3 generally are required:

- Foundation footings while under construction
- After the dwelling is framed-in; and
- A final inspection once all work is complete

Who does the inspections?

RD Instruction states that inspections other than final inspections may be conducted by other qualified persons as authorized in RD Instruction 1924-A and HB-1-3550. If inspections are conducted by a third party, the inspector must submit periodic inspection reports to the Agency. In the case of a county or city building inspector, copies of the inspector's reports must be provided to the Agency.

USDA Rural Development employees in Texas will accept any form of inspection report or a Building Permit showing each inspection issued by a local building official who is a licensed construction inspector. These inspections may be accepted in lieu of Agency inspections.

What is considered adequate documentation of construction quality?

If construction quality is not adequately documented, loans for new dwellings are limited to 90 percent of the market value plus allowable excess costs. The following are acceptable documentation of construction quality:

"USDA is an equal opportunity provider, employer and lender."

To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).

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- The Agency has issued a conditional commitment and inspected the property.
- The dwelling is covered by an approved 10-year warranty plan, as described in RD Instruction 1924-A, and there is a certificate of occupancy when issued by the local governing agency.

<http://www.rurdev.usda.gov/tx/forms/TenYearWarranty.pdf>

- The loan will be closed prior to the start of construction so that the Agency can monitor the construction.
- The new dwelling is a manufactured home that meets Agency requirements.
- Applicant provides a complete set of plans and specifications and, to demonstrate that the construction was properly inspected, copies of all construction-phase reports prepared by a licensed construction inspector. In the case of properties inspected by the Federal Housing Administration (FHA) or Veterans Affairs (VA), a certification that the dwelling was built in accordance with approved plans and specification may be submitted in lieu of construction-phase reports.

When will payment in full be made?

Once construction and rehabilitation work is satisfactorily completed, the Agency will make final payment to the contractor. *(Ten percent of the contract is held for 30 days after all construction is completed.)* Before that can occur, the Loan Originator must ensure that the work has been done properly and that no one will make any claims against the property.

What is a Conditional Commitment?

A conditional commitment is a written assurance from the Agency to a qualified builder, dealer-contractor, or seller that a dwelling to be constructed or rehabilitated will be certified as acceptable for purchase by qualified loan applicants, as long as the construction and sales price meet certain conditions. The conditional commitment does not reserve loan funds, nor does it guarantee that an eligible loan applicant will be available to purchase the property. It does, however, provide a reasonable assurance to the builder

that the home will be eligible for financing once it is completed. If the area does not remain rural, the conditional commitment will not be honored unless a purchaser is found who applied for a loan before the rural area designation changed.

How do you apply?

Builders/Contractors interested in receiving a conditional commitment must apply using Form RD 1944-36, Application for Conditional Commitment.

<http://rdinit.usda.gov/regs/forms/1944-36.pdf>

A single application form may be used to request conditional commitments for multiple dwellings.

All required attachments must be included for each dwelling for which a conditional commitment is requested, including the proposed selling price, address, evidence of building site ownership, and detailed descriptions of all proposed construction.

Is there a fee for a Conditional Commitment?

Applicants must include a **\$400 fee** for each dwelling for which a conditional commitment is requested. If a preliminary inspection of the property or investigation of the conditional commitment applicant indicates that a conditional commitment will not be issued, the application fee should be refunded. Once the appraisal is conducted, the application fee cannot be refunded. When a loan on a property with a conditional commitment is closed, the appraisal fee collected from the purchaser (\$325.00) is disbursed to the conditional commitment contractor.

This handout is intended only as a summary of the requirements to be a Builder/Contractor for the direct Section 502 Homeownership Loan program. More information can be found in USDA Rural Development Instruction 1924-A and HB-1-3550.

<http://www.rurdev.usda.gov/regs/regs/pdf/1924a.pdf>

<http://www.rurdev.usda.gov/regs/hblast.html#hb1>

Interested Builder/Contractors should contact the USDA Rural Development local office. A list of local offices in Texas is available on the USDA Rural Development - Texas Web site www.rurdev.usda.gov/tx/